



As reprinted from 01/06/2009

Ariz. treasurer says state short of cash for bills

State Treasurer Dean Martin said Monday that he's setting the stage for Arizona to borrow money for paychecks and other expenses because the state will run short of cash by February or March because of the growing revenue shortfall.

Martin called for prompt legislative action on several fiscal housekeeping measures to help ease the cash-flow crunch.

But he also said lawmakers must cut spending to erase the shortfall that he said puts Arizona on a path to bankruptcy in the next fiscal year if not corrected.

The state faces a projected \$1.2 billion shortfall in its \$9.9 billion current budget, but Martin said the aggregate of short-term borrowing needed to cope with the lack of cash in coming months could be several times that amount.

To prepare for borrowing, Martin said he is calling a meeting this week of a state commission to set a maximum interest rate for short-term borrowing by the state. He also said he plans to work with a major bank to arrange a line of credit for the state.

The Arizona Constitution prohibits the state from going into debt for more than \$350,000 but Martin said that prohibition only applies to long-term debt, not short-term borrowing within a fiscal year. The current fiscal year, already half over, ends June 30.

With big payments for schools due monthly through April, the state won't have enough cash without borrowing potentially as early as February but certainly by March, Martin said. "We still have to pay our bills."

Gov. Janet Napolitano, a Democrat expected to leave office later this month to join President-elect Barack Obama's Cabinet, disagrees that the state's fiscal crisis will require short-term borrowing, spokeswoman Jeanine L'Ecuyer said.

The budget proposal that Napolitano plans to release late next week will include budget-balancing measures she originally proposed in November when lawmakers mulled holding a December special session, L'Ecuyer said.

Those steps include borrowing against future Arizona Lottery revenue, postponing some expenses for state programs into the next fiscal year, and cuts and suspensions of some state spending, L'Ecuyer said.

"There are ways other than loans to deal with this and it's all part of a careful budget management plan that will be proposed again," L'Ecuyer said.

Napolitano last year called Martin "Chicken Little" for warning that the state could run out of cash without corrective action. That didn't happen but Martin said Monday that the spend-now, pay-later approach championed by Napolitano in the current budget just put off days of reckoning.

Martin said the biggest need is for lawmakers to make significant cuts to scale back inflated spending levels.

"The state has been consistently spending more than it makes for more than a year now," he said. "It definitely is a path towards bankruptcy if there's no changes in spending. You can't ignore your bills forever."

The Legislature's 2009 session will be dominated by budget work because of the fiscal crisis, and Senate Majority Leader Chuck Gray said he's optimistic that lawmakers can enact budget fixes quickly enough to avoid resorting to borrowing to pay bills in coming months.

After the session starts Monday, "we are going to focus exclusively on the budget," said Gray, R-Mesa. "Certainly I think that the state has gotten to the edge of bankruptcy."

Martin said he needs authorization to postpone school funding payments until later in months so that they better match up with sales-tax payments.

Also, to avoid disrupting transportation work, Martin said, he needs flexibility to not have to call in \$110 million of state loans to the Department of Transportation before he can borrow to pay the state's bills.

Department spokesman Tim Tait said \$50 million of loans could be repaid early without much problem but that transportation projects would be hurt by repaying the remaining \$60 million early.

The loans, intended to finance department operations pending federal reimbursements, are scheduled to be paid back in August 2011, Tait said.

The state last had to issue warrants when it couldn't pay its bills back during the Great Depression but it almost happened again during the 1980s, Martin said.

Now, Martin said, "the problem you have is that it's going to happen a lot sooner than people thought. You don't have until the end of the year to solve this problem."

By PAUL DAVENPORT 01.06.09, 09:13 AM EST